

VILLAGE OF COPPER CITY
Houghton County, Michigan

FINANCIAL REPORT

February 28, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Copper City		County Houghton
Audit Date 2/28/05	Opinion Date 7/18/05	Date Accountant Report Submitted to State: 7/28/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA			
Street Address 116 Fifth Street		City Calumet	State MI
Accountant Signature <i>Jackie A. Aalto</i>		ZIP 49913	
		Date 7/28/05	

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INDEPENDENT AUDITOR'S REPORT

To the Village Council
Copper City, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Copper City, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Copper City, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note IC, the Village of Copper City, Michigan prepares its governmental activities in the government-wide financial statements and its governmental fund financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above do not include the Volunteer Firemen's Fund which should be included in order to conform to accounting principles generally accepted in the United States of America. The amounts that should be recorded are not known.

In my opinion, except for the effects on the financial statements of the item described above, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, each major governmental fund and the aggregate remaining fund information of the Village of Copper City, Michigan, as of and for the year ended February 28, 2005 and the respective changes in financial position – modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note IC.


In addition, in my opinion, the financial statements referred to above presently fairly, in all material respects, the respective financial position of the business-type activities and each major proprietary fund of the Village of Copper City, Michigan, as of February 28, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of February 28, 2005.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 18, 2005, on my consideration of the Village of Copper City, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information on pages 24 through 26 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.



Jackie A. Aalto, CPA

July 18, 2005

VILLAGE OF COPPER CITY, MICHIGAN

Statement of Net Assets – Modified Cash Basis

February 28, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 120,313	\$ 87,565	\$ 207,878
Investments		2,427	2,427
Receivables		8,673	8,673
Internal balances	(1,483)	1,483	
Restricted assets – cash		31,294	31,294
Capital assets not being depreciated	2,700	6,577	9,277
Capital assets being depreciated, net	37,914	1,073,758	1,111,672
Bond issuance costs, net		7,563	7,563
Total Assets	<u>159,444</u>	<u>1,219,340</u>	<u>1,378,784</u>
Liabilities			
Accounts payable		988	988
Accrued expenses		40	40
Customer deposits payable		1,009	1,009
Interest payable		155	155
Long-term liabilities:			
Due within one year		6,000	6,000
Due in more than one year		280,000	280,000
Total Liabilities		<u>288,192</u>	<u>288,192</u>
Net Assets			
Invested in capital assets, net of related debt	40,614	794,335	834,949
Restricted for:			
Debt service		31,139	31,139
Streets	103,904		103,904
Unrestricted	<u>14,926</u>	<u>105,674</u>	<u>120,600</u>
Total Net Assets	<u>\$ 159,444</u>	<u>\$ 931,148</u>	<u>\$ 1,090,592</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF COPPER CITY, MICHIGAN

Statement of Activities – Modified Cash Basis

Year Ended February 28, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Government activities:							
General government	\$ 23,835	\$ 830	\$	\$	\$ (23,005)	\$	\$ (23,005)
Public safety	1,797	500			(1,297)		(1,297)
Public works	35,302	11,440	24,981		1,119		1,119
Recreation & culture	51				(51)		(51)
Other	9,937				(9,937)		(9,937)
Total governmental activities	70,922	12,770	24,981		(33,171)		(33,171)
Business-type activities:							
Water	48,358	44,655				(3,703)	(3,703)
Sewer	28,940	22,235				(6,705)	(6,705)
Total business-type activities	77,298	66,890				(10,408)	(10,408)
Total primary government	\$ 148,220	\$ 79,660	\$ 24,981	\$	(33,171)	(10,408)	(43,579)
General revenues:							
Property taxes					13,844		13,844
State shared revenues					23,011		23,011
Interest					698	1,733	2,431
Cable fee & other					97		97
Total general revenues					37,650	1,733	39,383
Changes in net assets					4,479	(8,675)	(4,196)
Net assets – beginning					154,965	939,823	1,094,788
Net assets – ending					\$ 159,444	\$ 931,148	\$ 1,090,592

The accompanying notes are an integral part of these financial statements.

VILLAGE OF COPPER CITY, MICHIGAN

Balance Sheet – Modified Cash Basis Governmental Funds

February 28, 2005

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
Assets					
Cash	\$ 28,271	\$ 60,048	\$ 24,434	\$ 7,560	\$ 120,313
Due from other funds				<u>11,862</u>	<u>11,862</u>
Total Assets	<u>\$ 28,271</u>	<u>\$ 60,048</u>	<u>\$ 24,434</u>	<u>\$ 19,422</u>	<u>\$ 132,175</u>
Liabilities and Fund Balances					
Liabilities					
Due to other funds	\$ 13,345	\$	\$	\$	\$ 13,345
Fund Balances					
Reserved for:					
Recreation	2,246				2,246
Unreserved:					
General fund	12,680				12,680
Special revenue funds		<u>60,048</u>	<u>24,434</u>	<u>19,422</u>	<u>103,904</u>
Total Fund Balances	<u>14,926</u>	<u>60,048</u>	<u>24,434</u>	<u>19,422</u>	118,830
Total Liabilities and Fund Balances	<u>\$ 28,271</u>	<u>\$ 60,048</u>	<u>\$ 24,434</u>	<u>\$ 19,422</u>	
Reconciliation to Statement of Net Assets:					
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities of \$72,900, net of accumulated depreciation of \$32,286, are not financial resources and, therefore, are not reported in the funds					<u>40,614</u>
Net assets of governmental activities					<u>\$ 159,444</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF COPPER CITY, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis Governmental Funds

Year Ended February 28, 2005

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 9,481	\$	\$	\$ 4,363	\$ 13,844
Licenses and permits	70				70
Intergovernmental	23,011	14,484	10,497		47,992
Charges for services	11,940				11,940
Interest and rents	1,162	310		56	1,528
Other revenue	<u>27</u>	<u></u>	<u></u>	<u></u>	<u>27</u>
Total Revenues	<u>45,691</u>	<u>14,794</u>	<u>10,497</u>	<u>4,419</u>	<u>75,401</u>
Expenditures					
Current					
General government	22,613				22,613
Public safety	1,277				1,277
Public works	15,822	8,333	10,987	160	35,302
Recreation and culture	51				51
Other	<u>9,937</u>	<u></u>	<u></u>	<u></u>	<u>9,937</u>
Total Expenditures	<u>49,700</u>	<u>8,333</u>	<u>10,987</u>	<u>160</u>	<u>69,180</u>
Excess (Deficiency) of Revenues over Expenditures	(4,009)	6,461	(490)	4,259	6,221
Fund Balances – Beginning of year	<u>18,935</u>	<u>53,587</u>	<u>24,924</u>	<u>15,163</u>	
Fund Balances – End of year	<u>\$ 14,926</u>	<u>\$ 60,048</u>	<u>\$ 24,434</u>	<u>\$ 19,422</u>	

Reconciliation to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation (1,742)

Change in net assets of governmental activities \$ 4,479

The accompanying notes are an integral part of these financial statements.

VILLAGE OF COPPER CITY, MICHIGAN

Statement of Net Assets Proprietary Funds

February 28, 2005

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 51,232	\$ 36,333	\$ 87,565
Investments	1,167	1,260	2,427
Accounts receivable	5,583	3,090	8,673
Due from other funds	<u>1,052</u>	<u>431</u>	<u>1,483</u>
Total Current Assets	<u>59,034</u>	<u>41,114</u>	<u>100,148</u>
Noncurrent assets:			
Restricted assets – cash	20,806	10,488	31,294
Capital assets not being depreciated		6,577	6,577
Capital assets being depreciated	633,681	440,077	1,073,758
Bond issuance costs, net	<u>7,563</u>		<u>7,563</u>
Total Noncurrent Assets	<u>662,050</u>	<u>457,142</u>	<u>1,119,192</u>
Total Assets	<u>721,084</u>	<u>498,256</u>	<u>1,219,340</u>
Liabilities			
Current Liabilities:			
Accounts payable	952	36	988
Accrued expenses		40	40
Customer deposits payable	505	504	1,009
Payable from restricted assets:			
Interest payable		155	155
Current portion of bonds payable	<u>4,000</u>	<u>2,000</u>	<u>6,000</u>
Total Current Liabilities	5,457	2,735	8,192
Noncurrent Liabilities:			
Bonds payable	<u>243,000</u>	<u>37,000</u>	<u>280,000</u>
Total Liabilities	<u>248,457</u>	<u>39,735</u>	<u>288,192</u>
Net Assets			
Invested in capital assets, net of related debt	386,681	407,654	794,335
Restricted for debt service	20,806	10,333	31,139
Unrestricted	<u>65,140</u>	<u>40,534</u>	<u>105,674</u>
Total Net Assets	<u>\$ 472,627</u>	<u>\$ 458,521</u>	<u>\$ 931,148</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF COPPER CITY, MICHIGAN

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year Ended February 28, 2005

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Operating Revenues			
Charges for services	\$ 44,655	\$ 22,235	\$ 66,890
Operating Expenses			
Cost of water	13,824		13,824
Personal services	6,270	2,826	9,096
Supplies	467	1,030	1,497
Other services and charges	1,471	9,633	11,104
Depreciation	17,995	12,911	30,906
Amortization	206		206
Total Operating Expenses	40,233	26,400	66,633
Operating Income (Loss)	4,422	(4,165)	257
Nonoperating Revenues (Expenses)			
Interest income	834	899	1,733
Interest expense	(8,125)	(2,540)	(10,665)
Total Nonoperating Revenues (Expenses)	(7,291)	(1,641)	(8,932)
Net Loss	(2,869)	(5,806)	(8,675)
Net Assets - Beginning of year	475,496	464,327	939,823
Net Assets - End of year	\$ 472,627	\$ 458,521	\$ 931,148

The accompanying notes are an integral part of these financial statements.

VILLAGE OF COPPER CITY, MICHIGAN

Statement of Cash Flows Proprietary Funds

Year Ended February 28, 2005

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 43,892	\$ 22,726	\$ 66,618
Cash payments to suppliers	(16,863)	(11,440)	(28,303)
Cash payments to employees	(6,798)	(3,026)	(9,824)
Net cash provided by operating activities	<u>20,231</u>	<u>8,260</u>	<u>28,491</u>
Cash Flows from Capital and Related Financing Activities			
Principal paid on capital debt	(3,000)	(22,000)	(25,000)
Interest paid on capital debt	(8,125)	(2,885)	(11,010)
Net cash used by capital and related financing activities	<u>(11,125)</u>	<u>(24,885)</u>	<u>(36,010)</u>
Cash Flows from Investing Activities			
Interest received	<u>814</u>	<u>872</u>	<u>1,686</u>
Net Increase (Decrease) in Cash and Restricted Cash	9,920	(15,753)	(5,833)
Cash and Restricted Cash – Beginning of year	<u>62,118</u>	<u>62,574</u>	<u>124,692</u>
Cash and Restricted Cash – End of year	<u>\$ 72,038</u>	<u>\$ 46,821</u>	<u>\$ 118,859</u>
Reconciliation of operating income (loss) to net cash provided operating activities:			
Operating income (loss)	\$ 4,422	\$ (4,165)	\$ 257
Adjustments:			
Depreciation	17,995	12,911	30,906
Amortization	206		206

The accompanying notes are an integral part of these financial statements.

VILLAGE OF COPPER CITY, MICHIGAN

Statement of Cash Flows (Continued)
Proprietary Funds

Year Ended February 28, 2005

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Changes in assets and liabilities:			
Accounts receivable	(620)	239	(381)
Due from other funds	(1,052)	(431)	(1,483)
Accounts payable	(49)	(346)	(395)
Accrued expenses	(528)	(200)	(728)
Customer deposits payable	<u>(143)</u>	<u>252</u>	<u>109</u>
Net cash provided by operating activities	<u>\$ 20,231</u>	<u>\$ 8,260</u>	<u>\$ 28,491</u>

Noncash Investing Activities - During the year ended February 28, 2005, \$20 and \$27 of interest income were added to the certificates of deposit balance directly in the Water and Sewer Funds, respectively.

The accompanying notes are an integral part of these financial statements.

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2005

Note I – Summary of Significant Accounting Policies

The Village of Copper City, Michigan was organized in December 1917 and covers an area of approximately one square mile. The Village is governed by an elected seven member council and provides the following services: fire protection, street maintenance, sanitation, water, sewer, recreation and general administration. Except for the use of the modified cash basis of accounting for the Village of Copper City, Michigan's governmental activities as described in Note I C, the accounting policies of the Village of Copper City, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Copper City, Michigan:

Implementation of GASB Statement No. 34

Although the Village presents its annual nonproprietary type financial statements on a comprehensive basis of accounting other than GAAP, the aspects of financial statement content and format, as prescribed by GASB Statement No. 34, have been implemented in the financial statements, effective for the year ended February 28, 2005.

The primary changes from the prior years' financial presentations include:

- A new format for the Village's basic financial statements including a government-wide Statement of Net Assets and Statement of Activities, in addition to fund financial statements, with emphasis on major funds, for governmental and proprietary activities.
- The reporting of infrastructure capital assets (such as roads, bridges, etc.) of governmental activities beginning March 1, 2004, of which there were none.
- The reporting of budget and actual information for the General Fund and other major funds in a new format as required supplementary information.
- Beginning net assets reported in government-wide financial statements will differ from the amounts reported as ending fund equity in the prior year financial statements due to this implementation.
- The change to the direct method of reporting cash flows from operations in the proprietary fund financial statements.

A. Financial Reporting Entity

In determining the financial reporting entity, the Village complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. Management has addressed the potential

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2005

component units (traditionally separate reporting entities) that the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no organizations that meet these criteria.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for the governmental and proprietary funds. The Village has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus. The modified cash basis of accounting is used to report the governmental activities. The accrual basis of accounting is used to report the business-like activities and the proprietary fund financial statements. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2005

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation in the government-wide financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the Village utilized the basis of accounting recognized as generally accepted, the governmental funds financial statements would use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The Village reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewage collection system.

Additionally, the Village reports the Municipal Street Fund which is a nonmajor governmental fund.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2005

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with a maturity of three months or less when acquired. The Village has no short-term investments. Investments are stated at cost, which approximates fair value and includes only certificates of deposit. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less to be cash equivalents and includes both restricted and unrestricted cash.

Interfund Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Restricted Assets – Restricted assets include assets that are legally restricted as to their use. The restricted assets are related to revenue bond retirement and bond reserve accounts in the proprietary funds.

Capital Assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2005

business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Prior to March 1, 2004 governmental funds' infrastructure assets were not capitalized. Infrastructure acquired since March 1, 2004 will be recorded at cost. However, no such assets were acquired from March 1, 2004 to February 28, 2005.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense that was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Machinery and equipment	5 to 25 years

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond issue costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2005

E. Property Taxes

Village property taxes are attached as an enforceable lien on property as of August 1. Taxes are levied August 1 and are due without penalty on or before September 14.

The 2004 taxable valuation of the Village totaled \$1,357,033, on which ad valorem taxes levied consisted of 6.0688 mills for the Village's operating purposes and 3.2813 mills for municipal streets.

The delinquent real property taxes of the Village are purchased by Houghton County. Unpaid personal property taxes are collected by the Village.

Note II – Stewardship, Compliance, and Accountability

A. Budgetary Information

The Village is required to follow the budget system provided by Michigan Public Act 621 – Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the financial statement presentation used to reflect actual revenues and expenditures. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not employed in the governmental funds.

Excess of Expenditures over Appropriations in Budgeted Funds – During the year, the Village incurred expenditures in the Local Street Fund which were in excess of the amounts appropriated by \$2,177.

B. Administration of Street Funds

Section 10k of Act 51 requires recipients of Michigan Transportation Fund (MTF) revenues to spend an average (over a 10 year period) of not less than 1 percent of these revenues on nonmotorized transportation services and facilities. The Village has not met this requirement.

Note III – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classification which mature not more than 270 days after the date of purchase; obligations of the

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2005

State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Village's deposits are in accordance with statutory authority. The Village has designated one bank for the deposit of Village funds.

The Village's deposits and investments at February 28, 2005 are included in the statement of net assets under the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 120,313	\$ 87,565	\$ 207,878
Investments – certificates of deposit only		2,427	2,427
Restricted assets – cash		31,294	31,294
	<u>\$ 120,313</u>	<u>\$ 121,286</u>	<u>\$ 241,599</u>

The breakdown between deposits and investments for the Village is as follows:

	<u>Primary Government</u>
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 241,313
Petty cash and cash on hand	286
Total	<u>\$ 241,599</u>

The bank balance of the Village's deposits is \$242,031 of which \$208,063 is covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Note IV – Restricted Assets and Bond Reserves

Specific assets of the Water and Sewer Funds have been restricted for maintenance and replacement, and debt service. Following is the detail of restricted assets at February 28, 2005:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
Restricted assets from bond covenants:			
Cash and cash equivalents	\$ 20,806	\$ 10,488	\$ 31,294
Less current liabilities payable from restricted assets		(155)	(155)
Restricted assets for debt service	<u>\$ 20,806</u>	<u>\$ 10,333</u>	<u>\$ 31,139</u>

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2005

Note V – Capital Assets

Capital asset activity of the primary government for the current year was as follows:

	Balance March 1, 2004	Increases	Decreases	Balance February 28, 2005
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 2,700	\$	\$	\$ 2,700
Capital asset being depreciated				
Buildings & improvements	52,200			52,200
Machinery & equipment	18,000			18,000
	70,200			70,200
Less accumulated depreciation for				
Building & improvements	20,474	1,222		21,696
Machinery & equipment	10,070	520		10,590
	30,544	1,742		32,286
Net capital assets being depreciated	39,656	(1,742)		37,914
Governmental activities net capital assets	\$ 42,356	\$ (1,742)	\$	\$ 40,614
	Balance March 1, 2004	Additions	Disposals and Adjustments	Balance February 28, 2005
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 6,577	\$	\$	\$ 6,577
Capital assets being depreciated:				
Water mains	689,713			689,713
Sewer mains	635,527			635,527
Equipment	4,759			4,759
Subtotal	1,329,999			1,329,999
Accumulated depreciation:				
Water mains	40,232	17,243		57,475
Sewer mains	183,103	12,712		195,815
Equipment	2,000	951		2,951
Subtotal	225,335	30,906		256,241
Net capital assets being depreciated	1,104,664	(30,906)		1,073,758
Business-type activities net capital assets	\$ 1,111,241	\$ (30,906)	\$	\$ 1,080,335

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2005

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 1,222
Public safety	520
Total governmental activities	<u>\$ 1,742</u>
Business-type activities	
Water	\$ 17,995
Sewer	12,911
Total business-type activities	<u>\$ 30,906</u>

Note VI – Internal and Interfund Balances and Activities

The composition of interfund receivable and payable balances at February 28, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	General Fund	\$ 1,052
Sewer Fund	General Fund	431
		<u>\$ 1,483</u>

Interfund balances represent routine and temporary cash flow assistance until funds are transferred.

Note VII – Long-Term Liabilities

The Village issues bonds to provide for capital acquisition and construction. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term liabilities at February 28, 2005 consisted of the following:

<u>Types of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at Year-End</u>
Business-type Activities:					
<i>Revenue Bonds:</i>					
2001 Issue – Water Supply System Revenue Bonds	3/1/04-3/1/41	3.25%	\$3,000-11,000	\$ 259,000	\$ 247,000
1988 Issue – Sewage Disposal System Revenue Bonds	4/1/05-1/1/22	5.0%	\$1,000-4,000	\$ 83,000	\$ 39,000

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2005

The following is a summary of long-term liabilities transactions for the year ended February 28, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities:					
<i>Revenue Bonds:</i>					
2001 Issue	\$ 250,000	\$	\$ (3,000)	\$ 247,000	\$ 4,000
1988 Issue	<u>61,000</u>	<u></u>	<u>(22,000)</u>	<u>39,000</u>	<u>2,000</u>
Total business-type activities – long term liabilities	<u>\$ 311,000</u>	<u>\$</u>	<u>\$ (25,000)</u>	<u>\$ 286,000</u>	<u>\$ 6,000</u>

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

<u>Year Ended February 28,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 6,000	\$ 9,978	\$ 15,978
2007	6,000	9,748	15,748
2008	6,000	9,518	15,518
2009	6,000	9,288	15,288
2010	6,000	9,058	15,058
2011-2015	34,000	41,643	75,643
2016-2020	40,000	34,930	74,930
2021-2025	38,000	27,068	65,068
2026-2030	37,000	21,093	58,093
2031-2035	44,000	14,593	58,593
2036-2040	52,000	6,955	58,955
2041	<u>11,000</u>	<u>358</u>	<u>11,358</u>
	<u>\$ 286,000</u>	<u>\$ 194,230</u>	<u>\$ 480,230</u>

Note VIII – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance through the Michigan Township's Participating Plan for various claims. The Village pays an annual premium for its insurance coverage. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

Required Supplementary Information

VILLAGE OF COPPER CITY, MICHIGAN
Budgetary Comparison Schedule – Modified Cash Basis
General Fund
Year Ended February 28, 2005

	Original & Final Budget	Actual
Beginning Budgetary Fund Balance	\$ 18,935	\$ 18,935
Resources (Inflows)		
Taxes	11,188	9,481
Licenses and permits	0	70
Intergovernmental	22,658	23,011
Charges for services	11,390	11,940
Interest and rents	882	1,162
Other revenue	<u>501</u>	<u>27</u>
Amounts Available for Appropriation	<u>65,554</u>	<u>64,626</u>
Charges to Appropriation (Outflows)		
General government	27,076	22,613
Public safety	1,408	1,277
Public works	14,677	15,822
Recreation and culture	0	51
Other	<u>8,931</u>	<u>9,937</u>
Total Charges to Appropriations	<u>52,092</u>	<u>49,700</u>
Ending Budgetary Fund Balance	<u>\$ 13,462</u>	<u>\$ 14,926</u>

VILLAGE OF COPPER CITY, MICHIGAN
Budgetary Comparison Schedule – Modified Cash Basis
Major Street Fund
Year Ended February 28, 2005

	<u>Original & Final Budget</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 53,587	\$ 53,587
Resources (Inflows)		
Intergovernmental	11,684	14,484
Interest	<u>412</u>	<u>310</u>
Amounts Available for Appropriation	65,683	68,381
Charges to Appropriation (Outflows)		
Public works	<u>10,805</u>	<u>8,333</u>
Ending Budgetary Fund Balance	<u>\$ 54,878</u>	<u>\$ 60,048</u>

VILLAGE OF COPPER CITY, MICHIGAN
Budgetary Comparison Schedule – Modified Cash Basis
Local Street Fund
Year Ended February 28, 2005

	<u>Original & Final Budget</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 24,924	\$ 24,924
Resources (Inflows)		
Intergovernmental	<u>7,821</u>	<u>10,497</u>
Amounts Available for Appropriation	32,745	35,421
Charges to Appropriation (Outflows)		
Public works	<u>8,810</u>	<u>10,987</u>
Ending Budgetary Fund Balance	<u>\$ 23,935</u>	<u>\$ 24,434</u>

Internal Control and Compliance

VILLAGE OF COPPER CITY, MICHIGAN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

To the Village Council
Copper City, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Copper City, Michigan, as of and for the year ended February 28, 2005, which collectively comprise the Village of Copper City, Michigan's basic financial statements and have issued my report thereon dated July 18, 2005. The report was a special report on the Village's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America, and was qualified because the basic financial statements do not include the Volunteer Firemen's Fund which should be included to conform with accounting principles generally accepted in the United States of America. The report included an explanatory paragraph on the implementation of GASB Statement No. 34 and a disclaimer of opinion on required supplementary information. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Village of Copper City, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Copper City, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Following is a description of the reportable condition. Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

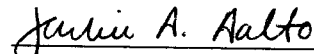
control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Copper City, Michigan's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to management of the Village of Copper City, Michigan in a separate letter dated July 18, 2005.

This report is intended solely for the information and use of the council membership, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

Calumet, Michigan
July 18, 2005

JACKIE A. AALTO
CERTIFIED PUBLIC ACCOUNTANT
116 Fifth Street
Calumet, Michigan 49913
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To the Council Members
Village of Copper City, Michigan

In planning and performing my audit of the financial statements of the Village of Copper City, Michigan for the year ended February 28, 2005, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. However, I noted a certain matter involving the internal control and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect the Village of Copper City, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Reportable Condition

1. The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Village Council remains involved in the financial affairs of the Village to provide oversight and independent review functions.

Other Comments and Recommendations

2. The governmental activities in the government-wide financial statements and the governmental fund financial statements of the Village are prepared on a modified cash basis of accounting. I recommend that the Village prepare the government-wide financial statements on an accrual basis of accounting and the governmental fund financial statements on a modified accrual basis of accounting in accordance with accounting principals generally accepted in the United States of America.
3. The financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. I recommend that future financial statements of the Village include a management's discussion and analysis.
4. Section 10k of Act 51 requires recipients of Michigan Transportation Fund (MTF) revenues to spend an average (over a 10 year period) of not less than 1 percent of these revenues on non-motorized transportation services and facilities. The Village has not met this requirement. I recommend that the Village develop a plan of project expenditures in the Street Funds to comply with this requirement.

5. The financial statements do not include the Volunteer Firemen's Fund. Because the department is not a separate legal entity, all of the financial activity should be reported in the Village's financial statements.
6. The Village incurred expenditures in excess of amounts appropriated in the Local Street Fund by \$2,177. I recommend that the Village monitor its future budgets to ensure that excess expenditures are not incurred.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the February 28, 2005 financial statements, and this report does not affect my report on those financial statements dated July 18, 2005. I have not considered the internal control since the date of my report.

This report is intended solely for the information and use of the council membership, management and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

July 18, 2005